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SUBJECT: COSTA RICA AND PANAMA - COOPERATION AND COMPETITION

NOTE: This is the first in a multi-part, occasional series that will examine Costa Rica's relationship with its main political, economic and social partners in the hemisphere.

11. (SBU) SUMMARY: In contrast to its historically problematic relationship with Nicaragua, Costa Rica has deepening and positive political-economic ties with Panama. Both countries have abolished their militaries and are cooperating more closely on counternarcotics, law enforcement and disaster preparedness initiatives. More importantly, both see themselves as "different" from the rest of Central America. The Costa Rica-Panama Free Trade Agreement, signed in October 2008, forged a permanent economic link between the two countries, which the Arias administration and the new Martinelli administration hope to expand. Costa Rican officials, academics and Panamanian diplomats based here all describe the growing bilateral relationship in glowing terms, with the MFA in particular calling for even stronger ties and a strategic partnership between the two neighbors. However, as Panama continues to develop economically, the two countries may find themselves competing directly, as each strives to become an economic leader in the region. END SUMMARY.

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POLITICS, BORDERS AND SECURITY  
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12. (SBU) Costa Rica and Panama share values and perspectives on a number of issues. While Costa Rica's history of respect for democracy and human rights is longer, both countries have modern societies built on liberal democratic foundations and fueled by globalized investment and trade. The current political climates in the two countries seem fairly closely aligned, especially after the election of Panama's Ricardo Martinelli. Martinelli's right-of-center, pro-U.S. leanings may make him a natural ally for the Arias government, relative to the left-leaning, populist governments of Costa Rica's neighbors to the north. The Panamanian president-elect's warm reception by President Oscar Arias in San Jose May 22-23, and his speech to the INCAE regional business school decrying the "improvisation" of populist governments in Latin America which had further "impoverished" their populations, support this assessment. The most likely outcome of the 2010 Costa Rican election -- another win for Arias' PLN party - probably would mean continued close relations with the Martinelli administration.

13. (SBU) Also, unique in the region, neither country has a standing army, instead relying on domestic police forces for internal and external security. Because Panama's 1992 abolition of its military is far more recent than Costa Rica's, its security forces are still more "military-like". However, due to a deteriorating security situation, Costa Rica must now invest more public resources in better training and equipping its security forces, including a few "military-like" special units. The USG provides both countries with counternarcotics law enforcement assistance. This includes the Merida Initiative, which is supporting Costa Rica with \$4.3 million

and Panama with \$2.9 million in FY 2008 funds.

¶4. (SBU) By appropriately applying this assistance, continuing their own efforts to train and equip their forces, and cooperating to confront common security and law enforcement challenges, Panama and Costa Rica could serve as regional models of how to keep the peace without conventional armed forces. Cooperation is already improving, as the GOCR has quietly reached out to Panama on a case-by-case basis to counter narcotrafficking. The regional "mini-IDEC" meetings (International Drug Enforcement Conferences) have helped build solid working relationships between the two countries.

¶5. (SBU) Border issues demonstrate how Costa Rica and Panama constructively work together. While Costa Rica and Nicaragua are locked in a long-running dispute about navigation rights on the San Juan River (which should be resolved by an International Court of Justice decision this summer), Panama has shown an interest in resolving such problems systematically and quietly. Costa Rica and Panama established a standing Border Commission for resolving disputes which typically deals with small-scale complaints from citizens living along the border. Both governments seem satisfied with the Commission's results, and the Martinelli visit generated talk in Costa Rica of creating a more formal Binational Commission to handle a wider array of issues.

¶6. (U) In addition, both countries worked together (with the U.S. military) on disaster relief and humanitarian projects during the last six months. These included a Medical Readiness Training Exercise (MEDRETE) in September, which treated indigenous patients from Costa Rica and Panama in the Burica region; a flood relief mission in November, which used Limon, Costa Rica as a base to provide aid to Caribbean coast residents in both countries; and the SOUTHCOM-sponsored regional FA-HUM humanitarian assistance exercise in April, which included a rescue dog team from Panama which participated in disaster simulations in Quepos, Costa Rica. (Joint Task Force Bravo from Honduras and/or elements of the New Mexico National Guard, Costa Rica's State Partner, were active in all these activities as well.)

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TRADE AND TOURISM TIES  
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¶7. (U) Presidents Arias and Martin Torrijos signed a Costa Rica-Panama Free Trade Agreement (FTA) in San Jose in October, 2008, further warming the relationship between the two countries. Panama is the fourth largest destination for Costa Rican goods. According to Panamanian Charge D' Affairs Luz Arredondo, Costa Rica is the main beneficiary of the FTA as it produces far more finished goods than Panama. Arredondo told us that while in most areas the FTA made permanent parts of previous agreements, it served to demonstrate how both countries are looking to enhance cooperation.

¶8. (SBU) Of note in the negotiation process was the (almost) complete lack of opposition to the Panama FTA within Costa Rica. While Costa Rica struggled through a five-year, politically-contentious ordeal to negotiate, ratify and implement CAFTA-DR, the Panamanian agreement was completed and approved with virtually no opposition, in a matter of weeks. During Martinelli's visit, he and Arias announced plans to revise the FTA to include some products (such as refined oils) and sectors (such as insurance) which were omitted from the original agreement. Perhaps seeking a counterbalance to the CA-4 group (Nicaragua, El Salvador, Guatemala and Honduras), Arias also expressed hope that Panama might join the ongoing EU-Central American Association Agreement, which the Arias administration would like to see completed before it leaves office in mid-2010. Martinelli agreed, noting in his INCAE speech that his government hoped to join the EU agreement when Spain assumes the presidency during the first six months of next year.

¶9. (U) During his press conference with President Arias on May 22, Martinelli stressed that Panama and Costa Rica have much in common, and should focus on developing tourism as well as trade. With nearly half the tourists visiting Panamanian destinations such as Bocas de Toro coming from Costa Rica, he suggested that the two

countries form a "tourism alliance" to attract more international tourists.

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A GREEN FRIENDSHIP  
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¶10. (U) The two countries also have a significant relationship in the environmental sector. A large part of the Costa Rica - Panama border falls inside La Amistad National Park, a bi-national park that the two countries manage jointly. A World Heritage Site, La Amistad faces continual development pressure on both sides of the border from oil exploration, poaching, road development, etc. However, both countries work diligently together to face these challenges, and have a standing bilateral cooperation agreement focused on the border region and its management.

¶11. (U) In addition to their respective participation in regional bodies, such as the Central American Commission on Environment and Development (CCAD) and the Central American Fisheries and Aquaculture Organization (OSPESCA), Costa Rica and Panama are also coordinating bilaterally on issues such as the trafficking of endangered species. For example, at a late 2008 CAFTA-DR training program in San Jose regarding the Convention on International Trade in Endangered Species (CITES), Panamanian and Costa Rican customs, fisheries, and environmental officials focused on developing more effective coordination of cross-border enforcement efforts.

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HOW CLOSE CAN THEY GET?  
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¶12. (SBU) After the relative success of the Costa Rica-Panama FTA, the GOCR's Ministry of Foreign Affairs has set its sights on pursuing a more robust cooperative agreement that could relax immigration restrictions between the two countries. The MFA has started to tentatively push towards the negotiation of a "CA-2 agreement", loosely based on the "CA-4" (Central America Four agreement) between Nicaragua, El Salvador, Guatemala and Honduras that Costa Rica chose not to join. This would focus on further political/migratory cooperation. As foreseen by the MFA, this agreement might abandon the requirement that citizens of Costa Rica and Panama carry passports when crossing the shared border, instead allowing travelers to use their national identity cards to process through migration. Commercial trucking interests widely support the proposal, as it would accelerate the movement of goods.

¶13. (SBU) While the MFA proposes loosening restrictions, both Costa Rica's Department of Immigration and Panama's Embassy in Costa Rica oppose these plans. Immigration Director Mario Zamora told us that his department "completely opposes" the removal of any restrictions to crossing the Costa Rica-Panama border. He is concerned with the possibility of third-country nationals, particularly Colombians who can already enter Panama without a visa, acquiring fake Panamanian ID cards which they would then use to cross freely into Costa Rica.

¶14. (SBU) Panamanian Charge D' Affairs Arredondo told us that she is also concerned with relaxing migration controls at Panama's northern border. She was unaware of any "active discussions" on the issue, adding that her government had already considered and rejected the possibility of reducing immigration requirements with Costa Rica. Overall, Arredondo still describes her country and Costa Rica as "natural partners," however.

¶15. (SBU) Even if the immigration initiatives do not bear fruit, the Costa Rican MFA remains optimistic. New Chief of Staff (and former Vice-FM) Elaine White described relations with Panama as "extraordinarily good," reflecting Costa Rica's and Panama's status as one of the "natural pairs" in Central America. (In her view, the others are Nicaragua and Honduras, and El Salvador and Guatemala.) White told us that Costa Rica is looking for an eventual "strategic partnership" with Panama, and she joked that the GOCR was pleased to have a "good border to the south" compared to the "bad border to the north".

¶16. (U) How close will/can the two neighbors become? Well-known Costa Rica academics such as Constantino Urcuyo of the University of

Costa Rica and the CIAPA think tank, and Panama-based Luis Guillermo Solis of the Ibero-American Secretariat for Central America, acknowledge the warm political climate at the moment and the many similarities between Costa Rica and Panama. However, they caution that the closeness and potential for partnership should not be exaggerated. Both countries are being driven together as much by what they do not want to have in common with the region, as by what they have in common with each other. An issue-by-issue partnership is thus more likely, in their view, than extremely close ties across the board.

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GRAB THOSE GRINGO BUCKS  
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¶17. (SBU) While their economies differ, with Costa Rica more heavily dependent on manufacturing and agriculture and Panama on financial services and the maritime sector, Costa Rica and Panama increasingly compete in several economic sectors. Both countries actively market themselves to foreign tourists, primarily the American market. In 2008, 2.1 million tourists travelled to Costa Rica, which has long been the tourist-capital of Central America. However, a healthy 1.8 million tourists visited Panama over the same period, almost a 30 percent increase over 2007.

¶18. (SBU) Though Costa Rica is still king of the tourist sector, Panama consistently leads its northern neighbor in attracting international investment. Panama topped Costa Rica in foreign direct investment (FDI) again in 2008, this time by 20 percent, attracting over \$2.4 billion compared to Costa Rica's \$2 billion. Costa Rica's Investment Promotion Board (CINDE) says that Panama is one of their main competitors--along with China, Vietnam, and El Salvador--when foreign companies are considering where to locate.

¶19. (SBU) Panama has had more success in part due to its focus on attracting American retirees, and the housing boom that has accompanied the Gringo retirement wave in recent years. Additionally, Panama has focused on public infrastructure improvements, which have enhanced its reputation with the expat retiree market relative to Costa Rica, where infrastructure development amounted to less than two percent of GDP in 2008 (compared to Panama's five percent). (COMMENT: One need only make the 14-hour drive along the Pan-American Highway between San Jose and Panama City to see Panama's vast superiority over Costa Rican highway infrastructure. END COMMENT.) The World Bank Doing Business indicators reflect this significant difference between the two countries. In 2009, Costa Rica rated 117th in "ease of doing business", while Panama came in much higher at 81st (second in Central America to El Salvador).

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COMMENT: COSTA RICA LOOKS SOUTH  
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¶20. (SBU) Costa Rica has long considered itself exceptional in Central America, and superior to its northern neighbors. Costa Rica's "exceptionalism" has only increased under the Arias administration, especially in light of the return of the Sandinistas in Nicaragua. In this respect, Panama represents a more equal (and to the GOCR, more acceptable) partner for Costa Rica. The 2008 FTA showed a developing maturity in the bilateral relationship, both politically and economically. Additionally, the already positive law enforcement relationship that Costa Rica enjoys with Panama should only get better, and may provide new opportunities to advance USG security policy in the region. Costa Rica certainly views its non-militarized southern neighbor as a kind of "offspring" of its own non-military example.

¶21. (SBU) However, as Panama continues to develop it will become an increasingly tough competitor for Costa Rica. Costa Rica maintains a number of advantages over Panama, including a more educated population (and more English speakers in the workforce), a larger middle class, better health care services, and a more robust social service sector. Costa Rica's "Achilles heel" is its lack of investment in infrastructure, it's lagging "doing business" quotient, and growing domestic security problems which may hinder the flow of international investment. Though Costa Rica may appreciate a Central American neighbor on a more similar

political-economic footing, there may come a day in the not-too-distant future when Costa Rica will wonder how Panama surpassed it so quickly to take economic leadership in the region.

CIANCHETTE